



**GOVERNMENT  
SUPERANNUATION FUND  
AUTHORITY**



**Statement of Performance  
Expectations**

1 July 2018

**2018**

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# Statement from the Board



The Government Superannuation Fund Authority (**the Authority**) is an autonomous Crown Entity established under the Government Superannuation Fund Act 1956 (**the Act**).

The functions of the Authority are to manage and administer the Government Superannuation Fund (GSF or the Fund) and the GSF superannuation schemes (**the Schemes**) in terms of the Act.

The Fund has an actuarial deficit in that its assets are significantly less than the gross liabilities of the Schemes. The deficit exists primarily because, over the years, successive governments have elected not to pay employer contributions on behalf of their staff. Instead, governments provided funding as entitlements were paid. The Authority relies on the provisions in the Act for the Minister of Finance (**Minister**) to ensure that sufficient funds will be available to the Fund to pay entitlements as they fall due.

In carrying out its functions, the Authority has established two desired outcomes:

1. Contribute to an improvement in the Crown's overall economic position by endeavouring to minimise the Crown's contributions to the Fund.
2. Meet the needs and reasonable expectations of stakeholders.

The Authority seeks to maximise the returns of the Fund within acceptable levels of risk, controlling costs and ensuring members receive their entitlements in accordance with the Act.

The members of the Schemes and the employer contributors to the Schemes are also key stakeholders of the Fund. The Authority has determined the needs and reasonable expectations of the members and the employers to be as follows:

- Members - for entitlements to be calculated correctly, consistent with the Act and the policies maintained by the Authority, and to be paid on time. Meeting this need and reasonable expectation is a key factor in the Authority's management and administration of the Schemes.
- Employers - for contributions to be minimised.

The Authority takes a long term view when developing its investment strategy because the Fund is expected to pay entitlements for the next 50 years.

It has adopted an Investment Objective (explained below) and strategy that involves taking additional investment risk to improve the Crown's position compared to investing solely in New Zealand Government Stock (**NZ Government Stock**).

The Authority's investment strategy is also benchmarked against a Reference Portfolio, which is a simple, notional portfolio that would be expected to achieve the Investment Objective by investing only in major, liquid, public markets at low cost. This helps define the strategy's risk and is used to assess the contribution to the Fund's performance of decisions by the Fund's managers.

As part of the strategy the Authority has diversified away from equity risk into alternative sources of additional return and engaging skilled active managers as it believes they can add value after allowing for additional fees and costs.

Active investment management has been employed broadly by the Fund since 2008 and has added value net of incremental fees.

The Authority reports on how it has performed relative to its objective in the Annual Reports of the Authority and the Fund.

More information on the Authority and its policies and operations is available on our website at [www.gsfa.govt.nz](http://www.gsfa.govt.nz).



Cecilia Tarrant  
**Chairman**



Craig Ansley  
**Chairman, Investment Committee**

June 2018





## Nature and Scope

The Authority was established in 2001 to manage and administer the assets of the Fund and the Schemes in accordance with the Act.

The Authority Board, established by the Act and appointed by the Minister, governs the Authority and determines its business either directly or by delegation.

The Authority oversees the management of the Fund and the Schemes and has outsourced the day to day activities in relation to Schemes administration and investment management, including custody of the Fund's assets.

The Authority's organisational structure is set out in Diagram 1 on page 4.

## Functions and Operations

The Authority's functions are to manage and administer the Fund and the Schemes in accordance with the Act. All decisions relating to the business of the Authority are made under the authority of the Board, in accordance with section 25 of the Crown Entities Act.

The key activities of the Authority fall into the following two broad categories:

### Investment

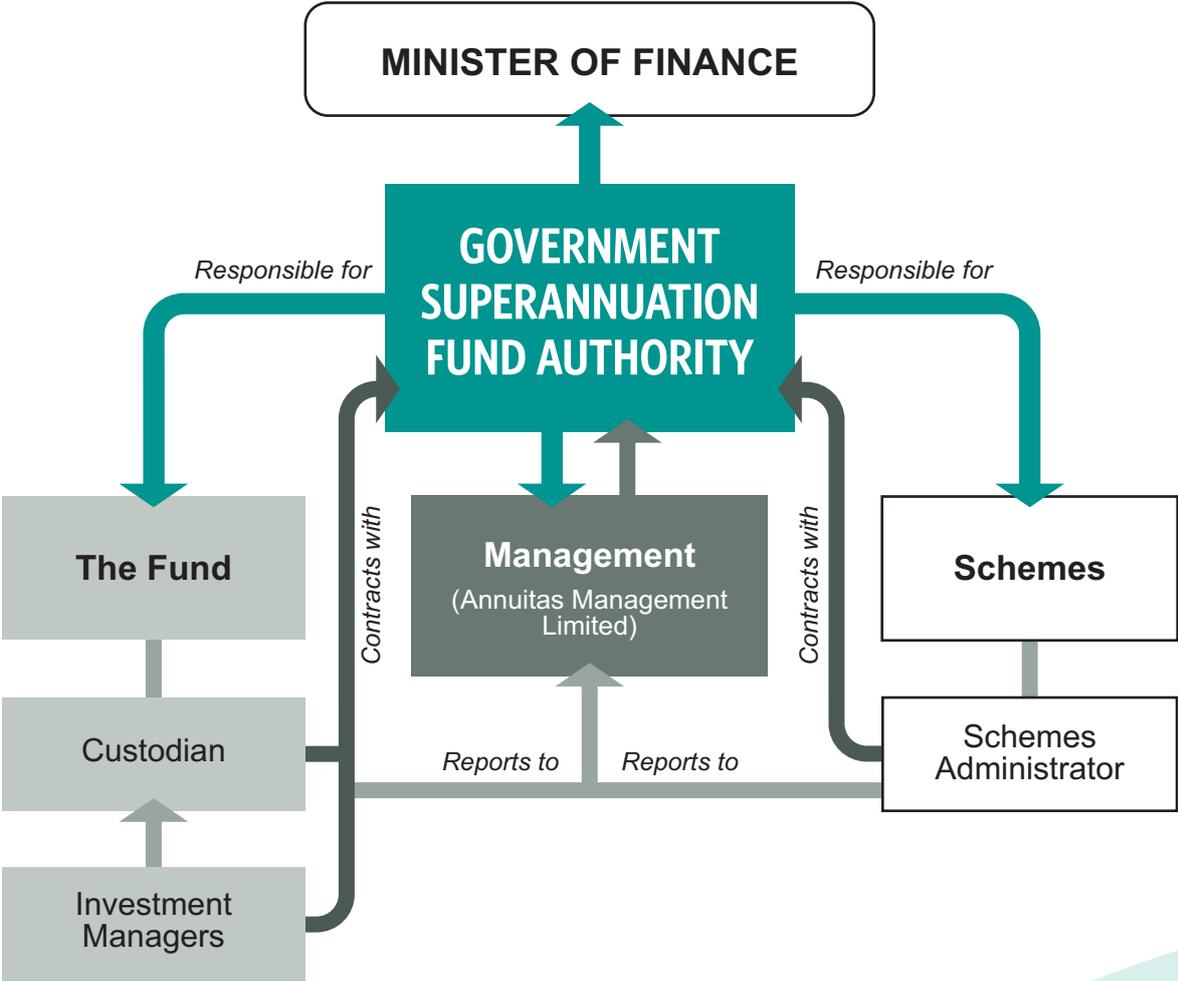
- Management of the investment assets of the GSF.

### Schemes

- Management and administration of the Schemes, including the agreement between the Authority and the Schemes Administrator.
- Interpretation of the provisions in the Act and exercise of discretionary powers in relation to any Schemes matters.

Details on the outputs and performance measures for these activities can be found on page 7 (**Investment**) and page 13 (**Schemes**).

Diagram 1: Structure of the Government Superannuation Fund Authority and its operations





## Objectives and Strategy

The Authority's investment responsibilities under the Act are to:

- invest the Fund on a prudent, commercial basis, in a manner consistent with best practice portfolio management;
- maximise returns without undue risk to the Fund as a whole; and
- avoid prejudice to New Zealand's reputation as a responsible member of the world community.

The Authority meets these responsibilities by developing and implementing:

- principles for best practice portfolio management;
- an investment strategy centred on a defined return objective over the long term and within a defined risk limit; and
- responsible investment policies to meet the requirement to avoid prejudice.

How the Authority does this is described in its Statement of Intent 2017.

## Investment Performance Expectations for 2018/2019

The Authority has defined its Investment Objective as follows:

*The Authority aims to maximize the Fund's excess return relative to NZ Government Stock (before NZ tax) without undue risk of underperforming NZ Government Stock measured over rolling ten year periods.*

In line with this, over the next ten years, the Authority expects the Fund to achieve an average return of 6.7% pa, before tax and investment costs, from compounding:

- the NZ Government Stock return of 2.8% pa
- and 2.8% pa return from additional risk in the Reference Portfolio
- and 1% pa return from alternative market exposures and active management strategies.

The volatility of market prices for risky assets like equities means the actual return in any given year may vary widely from the ten year expected average. The range of potential average returns over rolling ten year periods is much narrower than for any single year.

The Authority's forecast return for the year ended 30 June 2019 is 6.7% before tax and investment costs (see Table 1 on page 6). This translates to forecast gross investment income, including valuation changes, of \$312 million.

Table 1: Projected Investment Performance for the year ended 30 June 2019

Investment Performance	Actual Portfolio		Reference Portfolio	
	\$m	Return % pa	\$m	Return % pa
<b>Gross Investment Income</b>	<b>312</b>	<b>6.7</b>	<b>256</b>	<b>5.7</b>
Total Investment Costs	41	0.9	16	0.4
Net Investment Income	271	5.8	240	5.3
Tax	62	1.3	54	1.2
<b>Forecast Net Investment Income after tax</b>	<b>209</b>	<b>4.5</b>	<b>186</b>	<b>4.1</b>

NZ Government Stock is projected to return 2.7% gross of tax for the year to 30 June 2019.

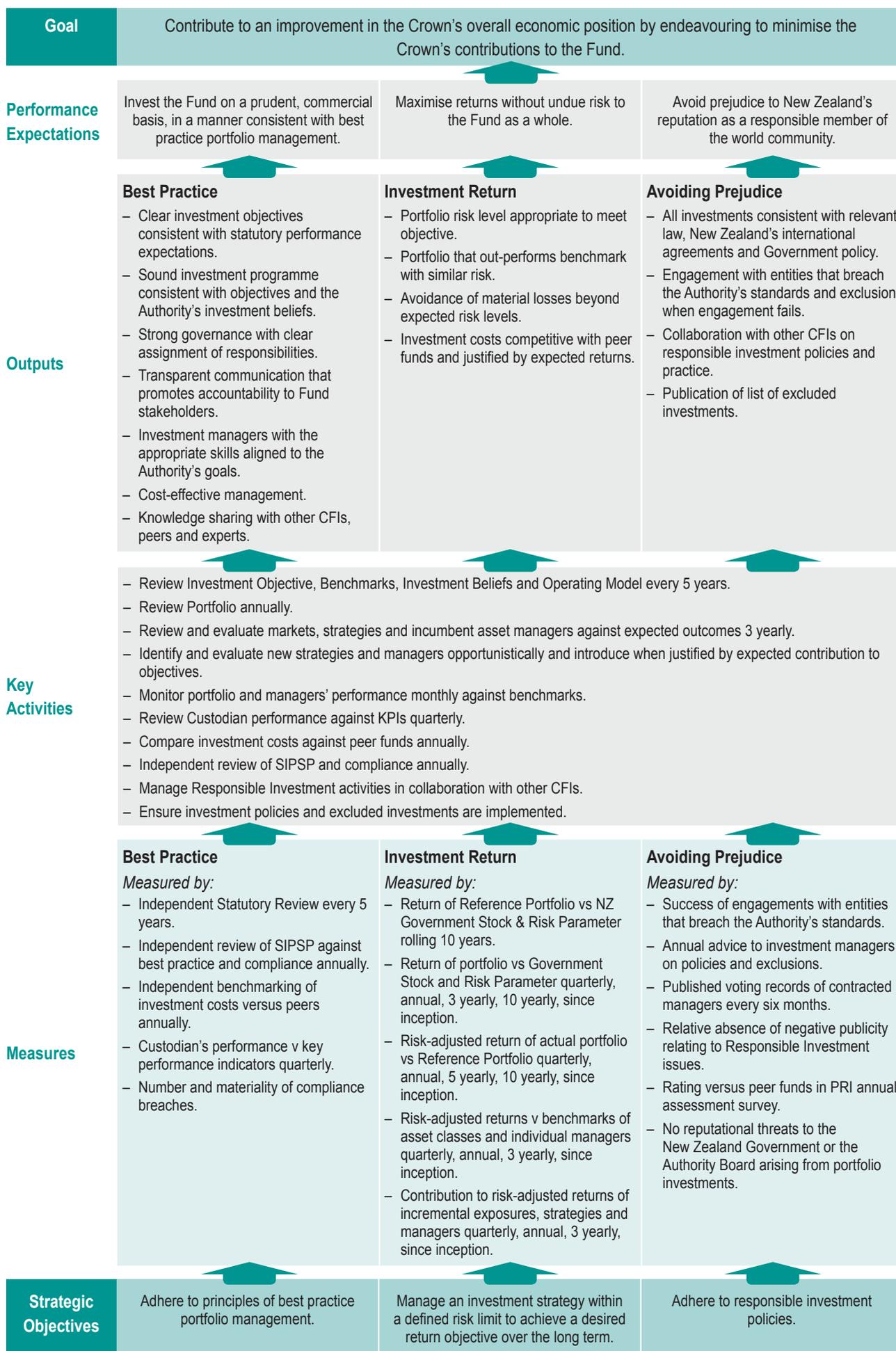
Investment Costs	Actual Portfolio		Reference Portfolio	
	\$m	Return % pa	\$m	Return % pa
Investment Management Fees	37	0.79	13	0.29
Custody Expenses	1	0.03	1	0.02
Overheads (share of Authority's operating expenses)	3	0.06	2	0.04
<b>Total Investment Costs</b>	<b>41</b>	<b>0.88</b>	<b>16</b>	<b>0.36</b>

Numbers may not add due to rounding.

## Outputs and Performance Measures

In addition to setting the Investment Objective, the Authority sets specific outputs and performance measures for investment. These assist the Authority to achieve the investment outcomes it has established. Some outputs are ongoing, while others reflect specific projects that may be completed over a period beyond one year.

For the 2018/2019 year the Authority has adopted the following service performance outputs and performance measures for investment:



## Significant Assumptions used in the Forecast of the Fund

Table 2 sets out the assumptions used for the asset allocation of the Actual Portfolio and the Reference Portfolio.

**Table 2: Assumed Asset Allocations of the Actual Portfolio and the Reference Portfolio as at 30 June 2018**

Asset Class	Actual Portfolio (%)	Reference Portfolio (%)
International Equities	59.2	60.0
New Zealand Equities	9.6	10.0
Global Fixed Interest	16.5	30.0
Catastrophe Risk	6.0	n/a
Life Settlements	3.7	n/a
Alternative Risk	5.0	n/a
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
Foreign Currency Exposure	(20.0)	(20.0)

- *The Reference Portfolio is a simple, notional portfolio, invested passively in liquid public markets only.*
- *The Board's forecast of the performance of the Actual Portfolio depends on assumptions with respect to the returns (before tax) from each asset class. Actual returns from each asset class may vary from the long term return assumptions used and asset class exposures may vary over time.*
- *The assumed returns for the Reference Portfolio are Management's ten year forecasts including an allowance for current market valuations.*
- *The assumed returns for the Actual Portfolio include expected added value from active divergences from the Reference Portfolio.*
- *Actual investment management fees may vary from those projected because asset values may vary significantly from expected levels and performance fees are paid to some managers if agreed performance targets are exceeded.*
- *Currency hedging to New Zealand dollars is in place for all international assets while leaving an overall level of foreign currency exposure the Board considers is prudent. The net currency exposure benchmark is currently 20% of the Fund's assets. The Fund's foreign currency exposure may vary from 0 - 40%.*
- *Asset values, as at 1 July 2018, are projected from actual 31 December 2017 asset values.*
- *Projected entitlement payments from the Fund are \$10 million per month.*
- *Taxation assumptions are summarised in Table 3 below.*

Table 3: Taxation Assumptions

Asset Class	Tax treatment
International Equities and most Alternative Assets	<ul style="list-style-type: none"> <li>• 28% on 5% of the average value of the portfolios during the year.</li> </ul>
New Zealand Equities	<ul style="list-style-type: none"> <li>• 28% on dividends, allowing for imputation credits of 80% of the maximum imputation credits.</li> </ul>
Global Fixed Interest and some Alternative Assets	<ul style="list-style-type: none"> <li>• 28% on accounting profit or loss.</li> </ul>



## Background

The Schemes were established in 1948 to provide a way for public sector employees to save for their retirement.

The Schemes were closed to new members from 1 July 1992, except for people who were eligible for membership through their employment with certain Pacific Island governments. Membership was closed to these people in 1995.

There are seven Schemes, each of which is deemed to be registered as a superannuation scheme under the Financial Markets Conduct Act 2013 pursuant to section 19H of the Act.

At 30 June 2017, the Schemes had 57,750 members, made up of 12,471 contributory members and deferred annuitants (eg members who have elected to receive their entitlements from a future date) and 45,279 annuitants. It is expected that entitlements will continue to be paid by the Fund for the next 50 years or so.

Contributory members contribute a defined percentage of their superable salaries (which may be different to their total remuneration) to the Fund on a regular basis.

In return, they receive a retiring entitlement based on their average superable salary for the last five years of contributory service, years of service and age at retirement.

Certain non-Government employers contribute the balance of the accruing cost of their employees' retirement entitlements to the Fund. The Government, as an employer, meets its share of members' retirement entitlements as they fall due for payment. Therefore the Schemes are only partially funded, with the accumulated employee contributions, investment returns and employer contributions (from non-Government employers) being deemed by the Authority's Actuary to be sufficient to meet 25.4% of the entitlements for the 2018/2019 year.

The actual and projected present values of the Unfunded Past Service Liabilities (**UPSL**) of the Fund have been calculated by the Authority's Actuary in the actuarial valuation, as at 30 June 2017. The results are set out in Table 5 on page 11. The UPSL values are estimates of the Crown contributions required to meet the past service liabilities of the Fund.

Table 5: Actual and Projected Unfunded Past Service Liabilities

	Actual 30 June 2017 \$m	Projected 30 June 2018 \$m	Projected 30 June 2019 \$m
Past Service Liabilities	12,934	12,695	12,443
Net Assets	4,271	4,301	4,331
Unfunded Past Service Liabilities	8,663	8,393	8,112

- Numbers may not add due to rounding.
- The actual and projected unfunded past service liabilities were calculated by the Authority's Actuary using a net of tax investment rate. The UPSL, calculated using a gross discount rate, are recorded in the Crown's financial statements. In estimating the future net assets, the Actuary has assumed there will be no added value from active investment management.
- Investment markets have improved since the Authority's Actuary carried out the valuation.
- The Board projects net assets to be \$4,576 million as at 30 June 2018 and \$4,615 million as at 30 June 2019.

In all actuarial valuations since 30 June 2012 the Authority's Actuary has made allowance for continued improvements in mortality (i.e. for annuitants living longer) which has increased the past service liabilities and consequently the UPSL.

The Authority is responsible for managing and administering the Schemes in accordance with the Act. The day to day administration of the Schemes is outsourced to Datacom Connect Limited (**Datacom**).

The overall expected costs (**Schemes**) of \$7.92 million include the expected Schemes administration expenses, estimated actuarial costs and approximately 30% of the Authority's projected expenses (see page 23).

## Objectives and Strategy

The Authority aims to ensure sustainable, cost effective management of the Schemes to enable accurate calculation, payment and reporting of members' entitlements. The Authority does this by ensuring:

- contributions are collected and entitlements are calculated and paid correctly, in terms of the Act and the policies maintained by the Authority (**Policies**), and in a cost effective and timely manner; and
- service levels agreed with the Schemes Administrator are met.

The Business System, used for administration of the Schemes, is fundamental to achievement of this strategy. The Authority has developed a new Business System that has been in use by the Schemes Administrator since December 2016. The new Business System is working well and the Authority is confident it will prove to be sustainable over the medium to longer term.

Also key in achieving the Schemes' outcome is the performance of the Schemes Administrator, Datacom. The Authority has established and maintains a co-operative relationship with Datacom to ensure all issues relating to the administration of the Schemes are communicated early to the Authority and are managed and resolved in an open and collaborative manner, taking into account the interests of the members of the Schemes and the Crown.

The Actuary appointed by the Authority undertakes actuarial examinations of the Fund on a regular basis. Based on these examinations, the Authority reports to the Crown on the value of the liabilities of the Fund, as required by section 94 of the Act.

In communicating with members and employers, the Authority seeks to ensure information provided is both of a high standard and timely. This includes information on member entitlements and on the activities of the Authority.

The Authority interprets the provisions of the Act and the Policies, and exercises its discretionary powers, in relation to matters raised by members. The Authority seeks to achieve equity and consistency in its application of the provisions of the Act and the Policies.

## **Forecast Service Performance for 2018/2019**

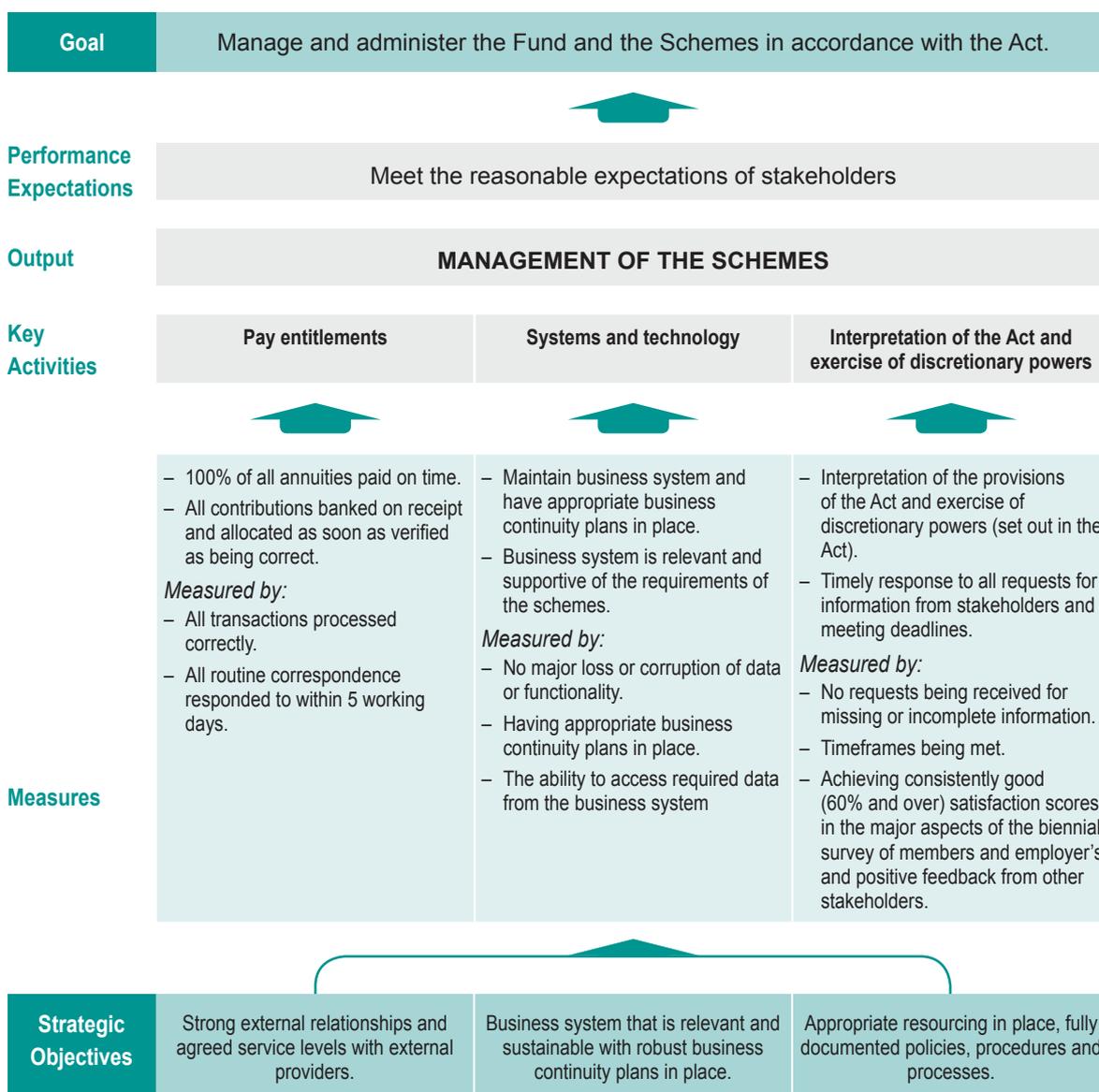
The Authority's key activities in relation to the Schemes are:

- management and administration of the Schemes, including the agreement between the Authority and the Schemes Administrator; and
- interpretation of the provisions in the Act and the policies and exercising discretionary powers (set out in the Act).

These are described further in the Statement of Intent 2017 which covers the period from 2017 to 2021.

## Outputs and Performance Measures

For 2018/2019 the Authority has identified the following outputs and performance measures to assist in achieving the Schemes' outcome:





# Forecast Financial Statements



## Forecast financial statements for the year ending 30 June 2019

### The Fund

- Forecast Income Statement
- Forecast Balance Sheet
- Forecast Statement of Cash Flows
- Forecast Reconciliation of Changes in Net Assets to Net Operating Cash Flows
- Statement of Accounting Policies

### The Authority

- Forecast Income Statement
- Forecast Balance Sheet
- Forecast Statement of Cash Flows
- Forecast Reconciliation of Net Operating Result to Net Operating Cash Flows
- Statement of Accounting Policies

# Government Superannuation Fund

## Forecast Income Statement

	Estimate 2017/18 \$000	Forecast 2018/19 \$000
Increase in assets from:		
Investing activities	510,304	312,399
Operating activities		
Expenses <sup>1</sup>	(46,346)	(49,320)
<b>Surplus before tax and membership activities</b>	<b>463,958</b>	<b>263,079</b>
Tax	(35,000)	(61,939)
<b>Surplus after tax and before membership activities<sup>2</sup></b>	<b>428,958</b>	<b>201,140</b>
Membership activities		
Contributions - Crown	726,000	714,000
Contributions - members	25,000	19,000
Contributions – other entities	17,000	16,000
Benefits paid	(892,000)	(911,000)
Net membership activities	(124,000)	(162,000)
<b>Surplus after tax and after membership activities</b>	<b>304,958</b>	<b>39,140</b>
Opening assets available to pay benefits	4,271,180	4,576,138
<b>Net assets available to pay benefits</b>	<b>4,576,138</b>	<b>4,615,278</b>

*Notes:*

1. Expenses - this amount is transferred from the Fund to the Authority to meet the investment, scheme administration and operating expenses of the Authority (see page 23).

2. The surplus in the Forecast Income Statement is lower than the projected Forecast Investment Income in Table 1, (on page 6), as the Forecast Income Statement above includes all the costs for the Authority.

# Government Superannuation Fund

## Forecast Balance Sheet

	Estimate as at 30 June 2018 \$000	Forecast as at 30 June 2019 \$000
<b>Investments</b>	<b>4,415,066</b>	<b>4,480,217</b>
<b>Other assets:</b>		
Cash and cash equivalents	189,970	180,000
Receivables, prepayments and other assets	85,913	81,959
	<b>275,883</b>	<b>261,959</b>
<b>Total assets</b>	<b>4,690,949</b>	<b>4,742,176</b>
<b>Less</b>		
Payables	114,811	126,898
<b>Net assets available to pay benefits</b>	<b>4,576,138</b>	<b>4,615,278</b>
Estimated actuarial present value of Promised Retirement Benefits	12,695,000	12,443,000
Deficit <sup>2</sup>	8,118,862	7,827,722
<b>Net assets available to pay benefits</b>	<b>4,576,138</b>	<b>4,615,278</b>

Notes:

### 3. Deficit

- The estimated actuarial present value of Promised Retirement Benefits (Gross Liability) is the present value of the expected payments by the Fund to existing and past members, attributable to the services rendered. The present value was calculated by the Authority's Actuary using a net discount rate.
- The Deficit shown in the Forecast Balance Sheet differs from that calculated by the Authority's Actuary in their actuarial valuation of the Fund, as at 30 June 2017, under NZ IAS 26, dated August 2017 (refer page 12). The Authority's forecast includes actual investment performance to 28 February 2018.
- There is no requirement on the Crown to fully fund the Deficit in relation to the Schemes and the Crown pays its share of the Deficit on a cash flow (pay as you go) basis.
- Reliance is placed by the Authority on the provisions of section 95 of the Act which requires the Minister to appropriate funds from public money to ensure that sufficient funds are available, or will be available, to pay entitlements as they fall due.

# Government Superannuation Fund

## Forecast Statement of Cash Flows

	Estimate 2017/18 \$000	Forecast 2018/19 \$000
<b>Cash flows from operating activities</b>		
<i>Cash provided from</i>		
Contributions - Crown	728,544	714,236
Contributions - members	25,004	19,025
Contributions - other entities	15,111	16,000
Interest, dividends and other income	85,678	105,260
<i>Cash disbursed to</i>		
Benefit payments	(892,396)	(910,975)
Income tax	(51,240)	(40,470)
Operating expenses	(46,711)	(49,602)
<b>Net cash outflows from operating activities</b>	<b>(136,010)</b>	<b>(146,526)</b>
Cash flows from investing activities		
<i>Cash provided from</i>		
Maturities and sales of investment assets	3,530,198	3,212,333
<i>Cash disbursed to</i>		
Purchase of investment assets	(3,208,066)	(3,025,777)
Capital expenditure	(188,000)	(50,000)
<b>Net cash inflows from investing activities</b>	<b>134,132</b>	<b>136,556</b>
Net (decrease) in cash held	(1,878)	(9,970)
Opening cash brought forward	191,848	189,970
<b>Closing cash balance</b>	<b>189,970</b>	<b>180,000</b>

# Government Superannuation Fund

## Forecast Reconciliation of Changes in Net Assets to Net Operating Cash Flows

	Estimate 2017/18 \$000	Forecast 2018/19 \$000
Net increase in net assets	<b>304,958</b>	<b>39,140</b>
<i>Add/(less) non-cash items</i>		
Amortisation of Business System	2,644	3,019
Change in deferred tax	1,894	3,399
<b>Total non-cash items</b>	<b>4,538</b>	<b>6,418</b>
<i>Add/(less) movements in working capital items</i>		
Movement in receivables and prepayments	7,805	(2,644)
Movement in other payables	(20,957)	16,741
<b>Total movement in working capital items</b>	<b>(13,152)</b>	<b>14,097</b>
<i>Add/(less) items classified as investing activities</i>		
Movement in accrued interest portion of fixed interest securities	(4,986)	4,149
Movement in net investment assets	(421,979)	(208,266)
Movement in investment receivables	(7,795)	2,664
Movement in investment payables	2,406	(4,728)
<b>Total</b>	<b>(432,355)</b>	<b>(206,181)</b>
<b>Net cash outflows from operating activities</b>	<b>(136,010)</b>	<b>(146,526)</b>

# Government Superannuation Fund

## Statement of Accounting Policies

### Reporting entity and statutory base

The Fund was established by section 13 of the Act. It consists of the assets held in respect of various defined benefit superannuation schemes prescribed in the Act. Pursuant to section 19H of the Act, each of the Schemes must be treated as if it is registered on the register of managed investment schemes under the Financial Markets Conduct Act 2013 as a superannuation scheme, but Part 4 of the Financial Markets Conduct Act 2013 otherwise does not apply to it.

The Fund is managed by the Authority. The Authority was established as a Crown entity by section 15A of the Act and became an autonomous Crown entity under the Crown Entities Act 2004.

As the primary objective of the Fund is to make a financial return, the Authority has determined the Fund is a profit oriented entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**).

### Basis of preparation

#### Statement of Compliance

The forecast financial statements meet the requirements of section 15N of the Act and comply with New Zealand Generally Accepted Accounting Practice (**NZ GAAP**).

The forecast financial statements also comply with New Zealand equivalents to NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements comply with International Financial Reporting Standards (**IFRS**).

These forecast financial statements have been prepared for the Statement of Performance Expectations of the Authority commencing on 1 July 2018 and for the Minister. They are not prepared for any other purpose and should not be relied upon for any other purpose.

Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

#### Measurement Base

The forecast financial statements have been prepared on the basis of historical cost with the exception that certain assets and liabilities are measured at fair value.

### Functional and presentation currency

The reporting currency of the Fund is New Zealand dollars. All values are rounded to the nearest thousand dollars (**\$000**). The functional currency of the Fund is New Zealand dollars.

#### Particular accounting policies

The following particular accounting policies, which significantly affect the measurement of changes in net assets, net assets and cash flows, have been consistently applied:

#### **a. Reporting requirements**

The forecast financial statements have been drawn up in accordance with *NZ IAS 26: Accounting and Reporting by Retirement Benefit Plans*, and with the provisions of relevant legislative requirements.

#### **b. Investments**

Investments projected and stated at fair value.

#### **c. Promised retirement benefits**

The actuarial present value of promised retirement benefits is the present value of the expected payments by the Fund to existing and past members, attributable to the services rendered.

#### **d. Financial instruments**

The Fund is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, investments, receivables and payables. Financial instruments, including derivatives that are hedges of specific assets, are recognised on the same basis as their underlying hedged assets.

All financial instruments are recognised in the Balance Sheet and all revenues and expenses in relation to financial instruments are recognised in the Income Statement.

Investments are recorded at fair value and all other financial instruments are shown at their estimated fair value.

#### **e. Receivables**

Receivables are carried at amortised cost.

Assets that are stated at amortised cost, are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised as the difference between the asset's carrying amount and the present value of the recoverable amount.

#### **f. Other assets**

Other assets include the Business System. The Business System is being amortised over ten years. Amortisation is being recovered from the Authority as the user of the Business System.

#### **g. Investment income and expenses**

Dividend income is recorded on the ex-dividend date. Interest is recorded on an accrual basis.

Gains and losses on the sale of equities are determined by using the average cost of equities sold and are recorded on the settlement date.

All realised and unrealised gains and losses, at the end of the year (including those arising on translation of foreign currencies), are included in the Income Statement.

Costs of administration of the Fund, including investment management and custodian fees, are paid out of the Fund and recovered from the Crown in accordance with section 15E of the Act.

## **h. Operating revenue**

In terms of section 15E(1) of the Act, the administration expenses of the Authority, including investment management and custody expenses, are reimbursed by the Fund. Employer subsidy payments made to the Fund by the Crown and other employers include a share of the expenses.

## **i. Contributions and benefits**

Contributions are recognised in the Income Statement, when they become receivable, resulting in a financial asset for amounts receivable from both members and employers.

Entitlements are recognised in the Income Statement when they become payable.

Contribution and entitlement projection numbers are taken from the actuarial valuation as at 31 January 2018.

## **j. Taxation**

For tax purposes, the Fund is classified as a portfolio investment entity (**PIE**). Income taxation expense includes both the current year's provision and the income tax effects of temporary differences (if any).

Since the Fund became a PIE there have been no temporary differences. The Fund is not registered for Goods and Services Tax.

## **k. Statement of Cash Flows**

The following are the definitions of the terms used in the Statement of Cash Flows:

- Cash and other cash equivalents includes cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Fund and its managers invest as part of its day to day cash management. All balances have an original maturity of less than three months.
- Investing activities are those activities relating to the acquisition, holding and disposal of investments. Investments include securities not falling within the definition of cash, including cash flows from the settlement of forward foreign exchange contracts.
- Operating activities include all transactions and other events that are not investing or financing activities.

## **l. Consolidation**

The Fund's financial statements include the Judges' Superannuation Account and the Parliamentary Superannuation Account.

## **Changes in accounting policies**

There are no significant changes in accounting policies.

# Government Superannuation Fund Authority

## Forecast Income Statement

	Estimate 2017/18 \$000	Forecast 2018/19 \$000
Transfer from the Fund	46,346	49,320
Other revenue	24	20
<b>Total revenue</b>	<b>46,370</b>	<b>49,340</b>
Schemes administration	6,390	6,719
Investment management	35,942	38,474
Operating expenses	4,038	4,147
<b>Total expenses</b>	<b>46,370</b>	<b>49,340</b>
Net operating result	-	-

## Forecast Balance Sheet

	Estimate as at 30 June 2018 \$000	Forecast as at 30 June 2019 \$000
<b>Tax payers' equity</b>		
General funds	-	-
<b>Total tax payers' equity</b>	<b>-</b>	<b>-</b>
<i>Represented by</i>		
Current assets		
Cash	400	450
Receivables and prepayments	3,784	3,502
<b>Total assets</b>	<b>4,184</b>	<b>3,952</b>
Current liabilities		
Payables and accruals	4,184	3,952
<b>Total liabilities</b>	<b>4,184</b>	<b>3,952</b>
Net assets	-	-

# Government Superannuation Fund Authority

## Forecast Statement of Cash Flows

	Estimate 2017/18 \$000	Forecast 2018/19 \$000
<b>Cash flows from operating activities</b>		
<i>Cash was provided from</i>		
Government Superannuation Fund	46,711	49,602
Interest	24	20
<i>Cash disbursed to</i>		
Operating expenses	(46,376)	(49,572)
<b>Net cash flows from operating activities</b>	<b>359</b>	<b>50</b>
Net increase in cash held	359	50
Opening cash brought forward	41	400
<b>Closing cash balance</b>	<b>400</b>	<b>450</b>

## Forecast Reconciliation of Net Operating Result to Net Operating Cash Flows

	Estimate 2017/18 \$000	Forecast 2018/19 \$000
<b>Net operating result</b>	-	-
<i>Add/(less) movements in working capital items</i>		
Decrease in receivables and prepayments	402	282
(Decrease) in payables and accruals	(43)	(232)
<b>Net cash flows from operating activities</b>	<b>(359)</b>	<b>(50)</b>

# Government Superannuation Fund Authority

## Statement of Accounting Policies and Significant Assumptions

### Reporting entity and statutory base

The Authority was established as a Crown entity by section 15A of the Act. The core business of the Authority is to manage and administer the Fund and the Schemes (see below).

The Fund was established by section 13 of the Act. It consists of various defined benefit superannuation schemes as prescribed in the Act. A separate financial forecast has been prepared for the Fund. Pursuant to section 19H of the Act, each of the schemes must be treated as if it is registered on the register of managed investment schemes under the Financial Markets Conduct Act 2013 as a superannuation scheme, but Part 4 of the Financial Markets Conduct Act 2013 otherwise does not apply to it.

The forecast financial statements have been prepared on the basis that the Authority is a going concern. The Authority is an Autonomous Crown Entity for legislative purposes and, as the primary objective is not to make a financial return, the Authority has designated itself a Public Benefit Entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

### Basis of preparation

#### Statement of compliance

The forecast financial statements have been prepared in accordance with section 142 of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP). The forecast financial statements comply with other applicable Financial Reporting Standards, as appropriate for Public Benefit Entities.

These forecast financial statements have been prepared for the Statement of Performance Expectations of the Authority commencing on 1 July 2018 and for the Minister. They are not prepared for any other purpose and should not be relied upon for any other purpose.

Actual financial results achieved for the period are likely to vary from the information presented.

#### Measurement base

The forecast financial statements are prepared on the historical cost basis.

#### Functional and presentation currency

The reporting currency of the Authority forecast financial statements is New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Authority is New Zealand dollars.

#### Particular accounting policies

The following particular accounting policies, which significantly affect the measurement of financial performance, financial position, and cash flows, have been consistently applied:

### **a. Forecast figures**

The forecast figures have been prepared in accordance with generally accepted accounting practice, and are consistent with the accounting policies adopted by the Authority for the preparation of the financial statements.

### **b. Revenue and expenses**

Revenue and expenses are recognised on an accrual basis.

Revenue is measured at the fair value of consideration received/or receivable. Revenue from the Fund is recognised as earned and reported in the financial period to which it relates.

Expenses paid in foreign currency are recorded at the rates of exchange prevailing at the date of the transactions and there are no currency gains or losses.

### **c. Goods and Services Tax**

The Authority makes principally exempt supplies for Goods and Services Tax (**GST**), as it manages superannuation schemes. GST is imposed on imported services if those services would be a taxable supply in New Zealand. The affected transactions for the Authority are fees incurred in relation to the custody of assets and investment reports undertaken overseas. GST on services is not reclaimable and GST is therefore included in expenditure.

### **d. Statement of Cash Flows**

The Forecast Statement of Cash Flows has been prepared using the direct approach.

### **e. Taxation**

As a Public Authority, in terms of section CW 38(2) of the Income Tax Act 2007, the Authority is exempt from income tax.

### **f. Accounting for Joint Ventures**

The Authority has a 50% ownership in Annuitas Management Limited (Annuitas). Staff employed by Annuitas act in management roles on behalf of the Authority. Reimbursement of Annuitas' costs, calculated on a time basis, are included in the operating expenses of the Authority. The Authority does not equity account for Annuitas as this is deemed to be immaterial.

## **Changes in accounting policies**

All policies have been applied on bases consistent with those used in the year ended 30 June 2017.

## **Investment management expenses**

Investment management fees (including custody costs) are forecast to increase from the estimate of \$35.942 million in 2018 to a forecast of \$38.474 million in 2019. This is primarily due to an increase in forecast investment fees caused by the reallocation away from global bonds into life settlements.

## Schemes administration expenses

The forecast Schemes administration expenses include reimbursement to the Fund for amortised expenditure on the Business System owned by the Fund.

## Recovery of expenses

The forecast expenses of the Authority, for the management and administration of the Fund and the Schemes for the 2018/2019 year, are \$49.340 million. These expenses, net of other revenue of \$0.020 million are recovered from the Fund in accordance with section 15E of the Act.

The Fund then recovers payments made to the Authority (forecast at \$49.320 million) partly from the Crown under a Permanent Legislative Authority and partly from non-Government employer contributions.

The payments to the Authority by the Fund are recovered from the Crown and from non-Government employer contributions in proportions determined by the Appointed Actuary. The Authority's appointed Actuary has determined that, from 1 July 2018, the Crown's share will be 91% (forecast \$44.881 million) and the share to be met from the non-Government employer contributions 9% (forecast \$4.439 million).

The expenses of the Authority include:

- Management of the GSF assets (**the Fund**).
- Expenses related to investment management, custodial arrangements and responsible investment fees.
- Management of the Schemes, including the agreement between the Authority and the Schemes Administrator (**Datacom**).
- Interpretation of the provisions of the Act and the Policies and the exercising of discretionary powers (set out in the Act).
- The fee paid to Annuitas under the management services agreement between the Authority and Annuitas.



**Statement of Performance Expectations  
(SPE)**